

TREASURY - GENERAL

STATE INVESTMENT COUNCIL

**Common and Preferred Stocks and Issues Convertible
into Common Stock of International Corporations**

Proposed Amendments: N.J.A.C. 17:16-44.1

Authorized By: State Investment Council, Peter A. Langerman, Acting Director,
Division of Investment

Authority: N.J.S.A. 52:18A-91

Calendar Reference: See Summary below for explanation of exception to calendar
requirement.

Proposal Number: PRN 2003-176

Submit comments by July 4, 2003 to:

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The agency proposal follows:

Summary

An exchange-traded fund (ETF) is a form of mutual fund that trades like a single stock. This instrument is a basket of stocks or bonds that reflects the composition of an underlying index such as the S&P 500 or the NASDAQ 100.

Investments in international equity ETFs will provide the Division of Investment with another vehicle for investing funds in the international equity portfolio. Exchange-traded funds will allow the Division of Investment to (1) invest funds quickly in diversified pools of equity securities when the Division determines that market volatility has created sudden investment

opportunities, and (2) invest in subsectors of the market that appear attractive when the Division does not have the immediate capability to

construct a diversified, actively-managed portfolio. Because the Division is providing a 60-day comment period on this notice of proposal, this notice is exempt from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

There shall be no social impact from the proposed amendment.

Economic Impact

The Division is already permitted to purchase ETFs for emerging markets equities pursuant to N.J.A.C. 17:16-46. Expanding the purchase of these securities will conform the rules to the practices under N.J.A.C. 17:16-46 and should not cause an economic impact. Rather, the earnings can potentially benefit the beneficiaries of the funds and the taxpayers of the state.

Federal Standards Statement

A Federal standards analysis is not required because the investment policy rules of the Division of Investment are under the auspices of the State Investment Council, and are not subject to any Federal requirements or standards.

Jobs Impact

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of the proposed amendment.

Agriculture Industry Impact

The proposed amendment shall have no impact on the agriculture industry.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required, since the proposed amendment imposes no requirements on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., but regulates only the Director of the Division of Investment.

Smart Growth Impact

The proposed amendment is not anticipated to have an impact on the achievement of smart growth and implementation of the State Development and Redevelopment Plan.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

17:16-44.1 Permissible investments

(a) - (b) (No change.)

(c) The Director shall submit a list of international equity exchange-traded funds to the Council for its approval. Such list may be amended or enlarged from time to time subject to the Council's approval and shall be designated the "Approved List of International Equity Exchange-traded Funds." Such funds must have a minimum market capitalization of \$100 million. For the purposes of this subchapter, exchange-traded funds shall be considered as common stock in determining all applicable limitations contained within this subchapter.

[(c)] (d) The Director shall only select issues of common stocks from the "Approved Common and Preferred Stock and Convertible and Securities List of International Corporations" or international equity exchange-traded funds from the "Approved List of International Equity Exchange-traded Funds" to be purchased by the pension funds.

[(d)] (e) (No change in text.)